

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>Township of Scio</u>	County Washtenaw
Audit Date March 31, 2006	Opinion Date June 14, 2006	Date Accountant Report Submitted To State: September 29, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address 1000 Oakbrook Drive, Suite 400	City Ann Arbor	State MI	ZIP 48104-6815
Accountant Signature 			

**Township of Scio**  
**Washtenaw County, Michigan**

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**Financial Report**  
**with Supplemental Information**  
**March 31, 2006**

# Township of Scio

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## Contents

<b>Report Letter</b>	1-2
<b>Management's Discussion and Analysis</b>	3-7
<b>Basic Financial Statements</b>	
Government-wide Financial Statements:	
Statement of Net Assets (Deficit)	8
Statement of Activities	9-10
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	11
Statement of Revenue, Expenditures, and Changes in Fund Balances	12
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Proprietary Funds:	
Statement of Net Assets	14
Statement of Revenue, Expenses, and Changes in Net Assets	15
Statement of Cash Flows	16
Fiduciary Funds - Statement of Assets and Liabilities	17
Component Units:	
Statement of Net Assets (Deficit)	18
Statement of Activities	19-20
Notes to Financial Statements	21-36
<b>Required Supplemental Information</b>	37
Note to Budgetary Comparison Schedule - General Fund	38
Budgetary Comparison Schedule - General Fund	39
Budgetary Comparison Schedule - Major Special Revenue Funds	40-41
<b>Other Supplemental Information</b>	42
Nonmajor Governmental Funds:	
Combining Balance Sheet	43
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	44



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## Independent Auditor's Report

To the Board of Trustees  
Township of Scio  
Washtenaw County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Township of Scio (the "Township") as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Scio's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Township of Scio as of March 31, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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A worldwide association of independent accounting firms

To the Board of Trustees  
Township of Scio  
Washtenaw County, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Scio's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

June 14, 2006

# **Township of Scio**

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## **Management's Discussion and Analysis**

Our discussion and analysis of the Township of Scio's (the "Township") financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2006. Please read it in conjunction with the Township's financial statements.

### **Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2006:

- State-shared revenue, our second largest revenue source, continued its downward spiral as a source of operating funds cut by the State of Michigan by an additional \$130,000 during the fiscal year. This represents a total reduction in excess of 20 percent in real dollars from the 2002 fiscal year total.
- In 2004, the Township residents voted to approve a tax millage for the purpose of creating the Open Space Land Preservation Fund. This fund and the tax monies collected from the millage have been used for the acquisition of a preservation easement for Gordon Hall, and other activities for the preservation of farmland, open space, and wildlife are underway. These funds may also be used to provide new parks and recreational opportunities; however, they cannot be used for other purposes.
- The county board withdrew the subsidy that was provided for the sheriff's road patrol in late 2005. This approximates a doubling in Township expenditures for police services and emphasizes the need for additional operational revenue at the Township level.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets (deficit) and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

# Township of Scio

## Management's Discussion and Analysis (Continued)

It is important that the reader note that this report represents a snapshot of the financial position of the Township as of the close of business on March 31, 2006. The major financial resource - property tax collection - is seasonal, collected during the period from December to February, and the revenue generated from property tax occurs late in the budget year and can only be considered available for the third quarter revenue stream.

A major budgeted revenue - development fees - is cyclical and, although significant, can vary widely based upon economic factors external to the Township. Development fee revenues and expenditures mainly represent pass-through payments for consultant services.

### The Township as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year (in thousands):

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Assets</b>						
Current assets	\$ 8,049	\$ 7,543	\$ 25,275	\$ 24,268	\$ 33,324	\$ 31,811
Noncurrent assets	3,971	3,939	18,450	17,494	22,421	21,433
Total assets	12,020	11,482	43,725	41,762	55,745	53,244
<b>Liabilities</b>						
Current liabilities	506	735	1,062	1,975	1,568	2,710
Long-term liabilities	700	844	-	-	700	844
Total liabilities	1,206	1,579	1,062	1,975	2,268	3,554
<b>Net Assets</b>						
Invested in capital assets -						
Net of related debt	3,169	3,012	18,450	17,495	21,619	20,507
Restricted	1,212	1,366	6,958	-	8,170	1,366
Unrestricted	6,433	5,525	17,255	22,292	23,688	27,817
Total net assets	<u>\$ 10,814</u>	<u>\$ 9,903</u>	<u>\$ 42,663</u>	<u>\$ 39,787</u>	<u>\$ 53,477</u>	<u>\$ 49,690</u>

# Township of Scio

## Management's Discussion and Analysis (Continued)

A significant portion of these assets is in-place capital improvements that are fixed assets and not readily transferable. The unrestricted net assets of governmental activities - the part of net assets that is available to finance day-to-day operations - were \$6,433,000 and \$5,526,000 as of March 31, 2006 and 2005, respectively. The current level of unrestricted net assets for our governmental activities is approximately 59 percent of total governmental activities net assets. Certain amounts are restricted for items such as land preservation, boulevard landscape maintenance, sewer and water operations, and capital projects.

The following table shows the changes of the net assets during the current year and compared to the prior year (in thousands):

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 491	\$ 584	\$ 4,666	\$ 4,272	\$ 5,157	\$ 4,856
Operating grants and contributions	14	731	-	-	14	731
Capital grants and contributions	-	-	1,295	1,286	1,295	1,286
General revenue:						
Property taxes	2,142	1,999	-	-	2,142	1,999
State-shared revenue	922	1,052	-	-	922	1,052
Unrestricted investment earnings	251	62	975	123	1,226	185
Franchise fees	169	154	-	-	169	154
Miscellaneous	32	31	-	-	32	31
Total revenue	4,021	4,613	6,936	5,681	10,957	10,294
<b>Program Expenses</b>						
General government	1,600	1,746	-	-	1,600	1,746
Public safety	1,382	1,424	-	-	1,382	1,424
Public works	45	46	-	-	45	46
Recreation and culture	37	2	-	-	37	2
Interest on long-term debt	46	54	-	-	46	54
Water	-	-	1,967	1,596	1,967	1,596
Sewer	-	-	2,093	1,825	2,093	1,825
Total program expenses	3,110	3,272	4,060	3,421	7,170	6,693
<b>Change in Net Assets</b>	<b>\$ 911</b>	<b>\$ 1,341</b>	<b>\$ 2,876</b>	<b>\$ 2,260</b>	<b>\$ 3,787</b>	<b>\$ 3,601</b>

### Governmental Activities

The Township's total revenues from governmental activities decreased over the past year with reductions in state-shared revenue, charges for services, and external grants and contributions all on the decline. A General Fund deficit was averted by the increased valuation in medium and long-term investment instruments and by foregoing some planned capital improvements in the fire department.

Expenses in General Fund decreased also, due primarily to less building activity in the last half of the fiscal year and the resulting decrease in consultant development costs.



# **Township of Scio**

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## **Management's Discussion and Analysis (Continued)**

### **Business-type Activities**

The Township's business-type activities consist of the Water and Sewer Fund. All assets, liabilities, revenue, and expenses are restricted strictly for those operations. We provide water and sewage services to property owners within a defined district. The water supply and sewerage processing is through the City of Ann Arbor. The Township operational responsibility is limited to the service lines located within the borders of the Township. However, the Township continues to review outstanding system improvements required in Ann Arbor under outstanding contracts with the City which will result in significant future expenditures from the Water and Sewer Fund. Construction of a second water connection with the City on Liberty Rd. began in 2005 and is expected to be functioning during summer 2006.

### **The Township's Funds**

Our analysis of the Township's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Township's major funds include the General Fund, Open Space Land Preservation Fund, Public Improvement Fund, and Capital Project Fund.

The General Fund pays for most of the Township's governmental services. The most significant expenditures are police and fire, which incurred expenses of approximately \$1,334,000 in 2006, up from \$472,000 in 1999. These public safety expenditures have historically been funded entirely by the General Fund.

The Open Space Land Preservation Fund was created to account for monies collected to be used for the permanent preservation of farmland, open space, wildlife, etc., and to provide new parks and recreational opportunities. Cooperative ventures with Washtenaw County, the City of Ann Arbor, and the State of Michigan have provided additional opportunities for acquisition of either land or rights to development land.

### **General Fund Budgetary Highlights**

Over the course of the year, the Township amended the budget to take into account events during the year. At March 31, 2006, the Public Improvement Fund was over budget by approximately \$86,000 due to the late fiscal year purchase of easement rights for Gordon Hall.

### **Capital Asset and Debt Administration**

At the end of 2006, the Township had approximately \$23.2 million invested in a broad range of capital assets, including buildings, fire equipment, and water and sewer lines. It is important to recognize that governmental assets are generally not easily transferred to cash equivalents.

# **Township of Scio**

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## **Management's Discussion and Analysis (Continued)**

The Township's Downtown Development Authority has a total debt obligation at the end of 2006 of approximately \$12.7 million. The proceeds that resulted from these debt issuances were used to finance the development of the Jackson Road corridor and are being paid from annual tax increment revenue collected by the Authority. The DDA is undertaking a financing plan amendment to extend its life and fund a planned expansion of the boulevard concept westerly to Dino Drive.

### **Economic Factors and Next Year's Budgets and Rates**

The Township adopted a General Fund budget for fiscal year 2006-2007 in which planned expenditures will exceed projected revenue. This budget deficit will be met by transfers from the outstanding fund balance in the General Fund. This revenue shortfall is generated by a continuing decline in state revenue-sharing funds, the effect of Proposal A capping taxable value on properties, and the mandated Headlee millage rollback. These revenue limitations occur in an environment of a growing Township where 52 percent of the current residents have moved into the community since 1999, bringing the population to an estimated 18,000 in 2006. These new residents require additional and improved municipal services. The impact of the Washtenaw County withdrawal of its long-standing subsidy to the sheriff's road patrol has led the board to seek a public safety special assessment millage to assure continuing funding for policing and fire service.

The water services contract with Ann Arbor requires a significant financial investment by the Township in new water lines and sewer upgrades.

The officers and Township board that were elected in November 2004 reinstalled the full-time Township manager position. The board will be conducting a thorough review of every aspect of the budget to bring things back into balance.

### **Contacting the Township's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

# Township of Scio

## Statement of Net Assets (Deficit) March 31, 2006

	Primary Government			Component
	Governmental	Business-type		Units
	Activities	Activities	Total	
<b>Assets</b>				
Cash and investments (Note 3)	\$ 7,262,797	\$ 24,521,899	\$ 31,784,696	\$ 6,336,620
Receivables - Net:				
Taxes	26,810	-	26,810	763
Customer	138,475	733,397	871,872	-
Interest	6,992	9,639	16,631	-
Special assessments	360,000	-	360,000	-
Prepaid expenses	-	-	-	439,731
Due from component units	1,618	-	1,618	-
Due from other governmental units	252,179	9,848	262,027	-
Capital assets - Net (Note 5):				
Nondepreciated	572,764	1,002,881	1,575,645	-
Depreciated	3,398,495	17,446,957	20,845,452	-
Total assets	12,020,130	43,724,621	55,744,751	6,777,114
<b>Liabilities</b>				
Accounts payable	133,205	575,322	708,527	108,528
Accrued and other liabilities	184,929	356,993	541,922	304,127
Due to primary government	-	-	-	1,618
Due to other governmental units	-	129,342	129,342	1,714,256
Noncurrent liabilities (Note 7):				
Due within one year	187,633	-	187,633	1,075,000
Due in more than one year	700,282	-	700,282	11,700,000
Total liabilities	1,206,049	1,061,657	2,267,706	14,903,529
<b>Net Assets (Deficit)</b>				
Invested in capital assets - Net of related debt	3,168,519	18,449,838	21,618,357	-
Restricted:				
Land preservation	1,079,816	-	1,079,816	-
Capital projects	132,693	6,958,412	7,091,105	-
Unrestricted (deficit)	6,433,053	17,254,714	23,687,767	(8,126,415)
Total net assets (deficit)	<u>\$ 10,814,081</u>	<u>\$ 42,662,964</u>	<u>\$ 53,477,045</u>	<u>\$ (8,126,415)</u>

# Township of Scio

		Program Revenues		
		Charges for	Operating	Capital Grants
Expenses		Services	Grants and	and
			Contributions	Contributions
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
General government	\$ 1,600,267	\$ 457,168	\$ -	\$ -
Public safety	1,381,652	33,321	300	-
Public works	44,758	-	13,344	-
Recreation and culture	37,035	-	-	-
Interest on long-term debt	46,026	-	-	-
Total governmental activities	3,109,738	490,489	13,644	-
Business-type activities:				
Water	1,966,609	1,786,991	-	475,137
Sewer	2,092,516	2,879,184	-	819,383
Total business-type activities	4,059,125	4,666,175	-	1,294,520
Total primary government	<u><b>\$ 7,168,863</b></u>	<u><b>\$ 5,156,664</b></u>	<u><b>\$ 13,644</b></u>	<u><b>\$ 1,294,520</b></u>
Component units:				
Downtown Development Authority	\$ 1,437,545	\$ -	\$ -	\$ -
Economic Development Corporation	656	-	-	-
Total component units	<u><b>\$ 1,438,201</b></u>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Franchise fees				
Miscellaneous				
Total general revenues				
<b>Change in Net Assets</b>				
<b>Net Assets - Beginning of year</b>				
<b>Net Assets - End of year</b>				

**Statement of Activities**  
**Year Ended March 31, 2006**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (1,143,099)	\$ -	\$ (1,143,099)	\$ -
(1,348,031)	-	(1,348,031)	-
(31,414)	-	(31,414)	-
(37,035)	-	(37,035)	-
(46,026)	-	(46,026)	-
(2,605,605)	-	(2,605,605)	-
-	295,519	295,519	-
-	1,606,051	1,606,051	-
-	1,901,570	1,901,570	-
(2,605,605)	1,901,570	(704,035)	-
-	-	-	(1,437,545)
-	-	-	(656)
-	-	-	(1,438,201)
2,142,139	-	2,142,139	2,511,447
922,165	-	922,165	-
251,004	974,697	1,225,701	203,165
168,928	-	168,928	-
32,124	-	32,124	-
3,516,360	974,697	4,491,057	2,714,612
910,755	2,876,267	3,787,022	1,276,411
9,903,326	39,786,697	49,690,023	(9,402,826)
<b>\$ 10,814,081</b>	<b>\$ 42,662,964</b>	<b>\$ 53,477,045</b>	<b>\$ (8,126,415)</b>

# Township of Scio

## Governmental Funds Balance Sheet March 31, 2006

	General Fund	Open Space Land Preservation Fund	Public Improvement Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash and investments (Note 3)	\$ 4,115,406	\$ 1,052,175	\$ 668,100	\$ 133,909	\$ 1,293,207	\$ 7,262,797
Receivables - Net:						
Taxes	21,247	5,563	-	-	-	26,810
Customer	138,475	-	-	-	-	138,475
Interest	6,992	-	-	-	-	6,992
Special assessments	-	-	-	360,000	-	360,000
Due from other funds (Note 6)	360	-	-	-	-	360
Due from component units	1,618	-	-	-	-	1,618
Due from other governmental units	73,085	26,817	-	-	-	99,902
Total assets	<u>\$ 4,357,183</u>	<u>\$ 1,084,555</u>	<u>\$ 668,100</u>	<u>\$ 493,909</u>	<u>\$ 1,293,207</u>	<u>\$ 7,896,954</u>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 126,650	\$ 4,739	\$ 600	\$ 1,216	\$ -	\$ 133,205
Other liabilities	167,191	-	-	-	-	167,191
Due to other funds (Note 6)	-	-	-	-	360	360
Deferred revenue (Note 4)	-	-	-	360,000	-	360,000
Total liabilities	293,841	4,739	600	361,216	360	660,756
<b>Fund Balances</b>						
Reserved - Land preservation	-	1,079,816	-	-	-	1,079,816
Designated for subsequent year's expenditures	430,551	-	-	-	-	430,551
Undesignated, reported in:						
General Fund	3,632,791	-	-	-	-	3,632,791
Special Revenue Funds	-	-	667,500	-	1,292,847	1,960,347
Capital Projects Funds	-	-	-	132,693	-	132,693
Total fund balances	<u>4,063,342</u>	<u>1,079,816</u>	<u>667,500</u>	<u>132,693</u>	<u>1,292,847</u>	<u>7,236,198</u>
Total liabilities and fund balances	<u>\$ 4,357,183</u>	<u>\$ 1,084,555</u>	<u>\$ 668,100</u>	<u>\$ 493,909</u>	<u>\$ 1,293,207</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	3,971,259
Deferred revenue is reported in the governmental funds, but not in the government-wide statements	360,000
Receivables which are not available in the current period and are not reported in the funds	152,277
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(887,915)
Interest amounts on long-term liabilities are not payable until due in the funds	(17,738)

Net assets of governmental activities \$ 10,814,081

# Township of Scio

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended March 31, 2006

	General Fund	Open Space Land Preservation Fund	Public Improvement Fund	Capital Projects Fund	Other Non-major Governmental Funds	Total Governmental Funds
<b>Revenue</b>						
Property taxes	\$ 1,108,080	\$ 567,745	\$ -	\$ -	\$ -	\$ 1,675,825
Locally raised	640,214	-	13,344	-	-	653,558
State-shared revenues	912,398	-	-	-	-	912,398
Special assessments	-	-	-	30,000	-	30,000
Interest, rentals, and other	653,051	18,178	24,998	22,603	50,140	768,970
Total revenue	3,313,743	585,923	38,342	52,603	50,140	4,040,751
<b>Expenditures</b>						
Current:						
General government	1,006,507	-	144,999	-	360	1,151,866
Public safety	1,334,328	-	-	-	-	1,334,328
Public works	92,534	-	-	1,216	-	93,750
Boards and commissions	514,263	-	-	-	-	514,263
Recreation and culture	-	37,035	-	-	-	37,035
Capital outlay	50,665	-	-	-	-	50,665
Debt service	-	-	-	-	90,813	90,813
Total expenditures	2,998,297	37,035	144,999	1,216	91,173	3,272,720
<b>Excess of Revenue Over (Under) Expenditures</b>	315,446	548,888	(106,657)	51,387	(41,033)	768,031
<b>Other Financing Sources (Uses)</b>						
Transfers in (Note 6)	-	-	-	-	90,813	90,813
Transfers out (Note 6)	(90,813)	-	-	-	-	(90,813)
Total other financing sources (uses)	(90,813)	-	-	-	90,813	-
<b>Net Change in Fund Balances</b>	224,633	548,888	(106,657)	51,387	49,780	768,031
<b>Fund Balances - Beginning of year</b>	3,838,709	530,928	774,157	81,306	1,243,067	6,468,167
<b>Fund Balances - End of year</b>	<b>\$ 4,063,342</b>	<b>\$ 1,079,816</b>	<b>\$ 667,500</b>	<b>\$ 132,693</b>	<b>\$ 1,292,847</b>	<b>\$ 7,236,198</b>

# Township of Scio

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## Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended March 31, 2006

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$	768,031
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are recorded as capital assets	200,835
Governmental funds allocate the cost of capital assets over their estimated useful lives as depreciation	(167,961)
Loss on disposal on assets is not recorded in the governmental funds	(473)
Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	(30,000)
Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33)	9,767
Repayment of long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	124,045
Increase in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	4,150
Change in accrued interest on long-term debt is not recorded in the governmental funds	2,361

<b>Change in Net Assets of Governmental Activities</b>	<b>\$</b>	<b><u>910,755</u></b>
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# Township of Scio

## Proprietary Funds Statement of Net Assets March 31, 2006

	Enterprise Funds		
	Water	Sewer	Total
<b>Assets</b>			
Current assets:			
Cash and investments (Note 3)	\$ 7,377,713	\$ 17,144,186	\$ 24,521,899
Receivables - Net:			
Customers	221,378	512,019	733,397
Interest	5,215	4,424	9,639
Due from other governmental units	-	9,848	9,848
Total current assets	7,604,306	17,670,477	25,274,783
Noncurrent assets - Capital assets (Note 5)	8,774,652	9,675,186	18,449,838
Total assets	16,378,958	27,345,663	43,724,621
<b>Liabilities</b> - Current liabilities			
Accounts payable	398,607	176,715	575,322
Accrued and other liabilities	118,115	238,878	356,993
Due to other governmental units	129,172	170	129,342
Total current liabilities	645,894	415,763	1,061,657
<b>Net Assets</b>			
Investment in capital assets - Net of related debt	8,774,652	9,675,186	18,449,838
Restricted	6,958,412	-	6,958,412
Unrestricted	-	17,254,714	17,254,714
Total net assets	<u>\$ 15,733,064</u>	<u>\$ 26,929,900</u>	<u>\$ 42,662,964</u>

# Township of Scio

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended March 31, 2006

	Enterprise Funds		
	Water	Sewer	Total
<b>Operating Revenue</b>			
Charges for services	\$ 1,667,707	\$ 2,879,184	\$ 4,546,891
Other	119,284	-	119,284
Total operating revenue	1,786,991	2,879,184	4,666,175
<b>Operating Expenses</b>			
Water purchased	1,173,890	-	1,173,890
Sewage treatment	-	986,289	986,289
Operation and maintenance	179,242	124,775	304,017
General and administrative	392,187	684,985	1,077,172
Depreciation	221,290	296,467	517,757
Total operating expenses	1,966,609	2,092,516	4,059,125
<b>Operating Income (Loss)</b>	(179,618)	786,668	607,050
<b>Nonoperating Revenue</b> - Investment income	332,315	642,382	974,697
<b>Income</b> - Before contributions	152,697	1,429,050	1,581,747
<b>Capital Contributions</b>			
Connection fees	168,987	639,383	808,370
Lines constructed by developers	306,150	180,000	486,150
Total capital contributions	475,137	819,383	1,294,520
<b>Change in Net Assets</b>	627,834	2,248,433	2,876,267
<b>Net Assets</b> - Beginning of year	15,105,230	24,681,467	39,786,697
<b>Net Assets</b> - End of year	<u>\$ 15,733,064</u>	<u>\$ 26,929,900</u>	<u>\$ 42,662,964</u>

# Township of Scio

## Proprietary Funds Statement of Cash Flows Year Ended March 31, 2006

	Enterprise Funds		
	Water	Sewer	Total
<b>Cash Flows from Operating Activities</b>			
Receipts from customers	\$ 1,784,242	\$ 2,894,381	\$ 4,678,623
Payments to suppliers	(1,150,588)	(1,296,395)	(2,446,983)
Payments to employees	(210,233)	(212,427)	(422,660)
Net cash provided by operating activities	423,421	1,385,559	1,808,980
<b>Cash Flows from Capital and Related Financing Activities</b>			
Purchase of capital assets	(984,577)	(2,378)	(986,955)
Passthrough of connection fees	(534,465)	(1,050,936)	(1,585,401)
Collection of connection fees	168,987	639,383	808,370
Net cash used in capital and related financing activities	(1,350,055)	(413,931)	(1,763,986)
<b>Cash Flows from Investing Activities</b>			
Purchase of investments	(250,284)	(1,754,567)	(2,004,851)
Interest received on investments	332,315	642,382	974,697
Net cash (used in) provided by investing activities	82,031	(1,112,185)	(1,030,154)
<b>Net Decrease in Cash and Cash Equivalents</b>	(844,603)	(140,557)	(985,160)
<b>Cash and Cash Equivalents - Beginning of year</b>	2,497,450	6,019,822	8,517,272
<b>Cash and Cash Equivalents - End of year</b>	<u><b>\$ 1,652,847</b></u>	<u><b>\$ 5,879,265</b></u>	<u><b>\$ 7,532,112</b></u>
<b>Statement of Net Assets Classification of Cash and Cash Equivalents</b>			
Cash and investments	\$ 7,377,713	\$ 17,144,186	\$ 24,521,899
Less amounts classified as investments	(5,724,866)	(11,264,921)	(16,989,787)
Total cash and cash equivalents	<u><b>\$ 1,652,847</b></u>	<u><b>\$ 5,879,265</b></u>	<u><b>\$ 7,532,112</b></u>
<b>Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities</b>			
Operating income (loss)	\$ (179,618)	\$ 786,668	\$ 607,050
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation and amortization	221,290	296,467	517,757
Changes in assets and liabilities:			
Receivables	(2,749)	8,659	5,910
Due to governmental units	-	6,538	6,538
Accounts payable	312,937	125,984	438,921
Accrued and other liabilities	71,561	161,243	232,804
Net cash provided by operating activities	<u><b>\$ 423,421</b></u>	<u><b>\$ 1,385,559</b></u>	<u><b>\$ 1,808,980</b></u>

**Noncash Investing, Capital, and Financing Activities** - During the year ended March 31, 2006, the Water and Sewer Funds received \$306,150 and \$180,000 of lines donated by developers, respectively. These lines were recorded as capital assets.

# Township of Scio

## Fiduciary Funds Statement of Assets and Liabilities March 31, 2006

	Agency Funds		Total
	Current Tax Collection	Trust and Agency	
<b>Assets</b> - Cash and investments (Note 3)	<u>\$ 25,771</u>	<u>\$ 192,986</u>	<u>\$ 218,757</u>
<b>Liabilities</b> - Accrued and other liabilities	<u>\$ 25,771</u>	<u>\$ 192,986</u>	<u>\$ 218,757</u>

# Township of Scio

## Component Units Statement of Net Assets (Deficit) March 31, 2006

	Downtown Development Authority	Economic Development Corporation	Total
<b>Assets</b>			
Cash and investments	\$ 6,326,941	\$ 9,679	\$ 6,336,620
Receivables - Net - Taxes	763	-	763
Prepaid expenses	439,731	-	439,731
Total assets	6,767,435	9,679	6,777,114
<b>Liabilities</b>			
Accounts payable	108,528	-	108,528
Accrued and other liabilities	304,127	-	304,127
Due to primary government	1,618	-	1,618
Due to other governmental units	1,714,256	-	1,714,256
Long-term debt	12,775,000	-	12,775,000
Total liabilities	14,903,529	-	14,903,529
<b>Net Assets (Deficit) - Unrestricted</b>	<b>\$ (8,136,094)</b>	<b>\$ 9,679</b>	<b>\$ (8,126,415)</b>

## Township of Scio

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		Program Revenues	
		Charges for	Operating
	Expenses	Services	Grants/ Contributions
Downtown Development Authority - Public works	\$ 1,437,545	\$ -	\$ -
Economic Development Corporation - Public works	<u>656</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u><u>\$ 1,438,201</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

### General Revenues

Property taxes

Interest

Total general revenues

### Change in Net Assets

**Net Assets** - Beginning of year

**Net Assets** - End of year

**Component Units  
Statement of Activities  
Year Ended March 31, 2006**

Net (Expense) Revenue and Changes in Net Assets		
Downtown Development Authority	Economic Development Corporation	Total
\$ (1,437,545)	\$ -	\$ (1,437,545)
-	(656)	(656)
(1,437,545)	(656)	(1,438,201)
2,511,447	-	2,511,447
202,840	325	203,165
2,714,287	325	2,714,612
1,276,742	(331)	1,276,411
(9,412,836)	10,010	(9,402,826)
<b><u>\$ (8,136,094)</u></b>	<b><u>\$ 9,679</u></b>	<b><u>\$ (8,126,415)</u></b>

## **Note I - Summary of Significant Accounting Policies**

The accounting policies of the Township of Scio (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township of Scio:

### **Reporting Entity**

The Township of Scio is governed by an elected seven-member board of trustees. The accompanying financial statements present the Township and its component units, entities for which the Township is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the Township's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Township (see discussion below for description).

- **Blended Component Units** - The Building Authority was created to provide for the financing of renovations to the Township Hall. The Building Authority's governing body, which consists of three individuals, was created during the fiscal year ended March 31, 1999. Building Authority operations consist of the issuance and repayment of debt and the construction of facilities. Although it is legally separate from the Township, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the Township's public buildings.

### **Discretely Presented Component Units**

**Downtown Development Authority** - The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and promote economic growth within the downtown district. The Authority's governing body, which consists of nine individuals, is selected by the Township board. In addition, the Authority's budget is subject to approval by the Township board. Separate financial statements are not prepared.

**Economic Development Corporation** - The Economic Development Corporation was created to provide a means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, construction, improving, or expanding within the Township so as to provide needed services and facilities of such enterprises to the residents of the Township. The Corporation's governing body, which consists of nine individuals, is selected by the Township board. Separate financial statements are not prepared.



### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets (deficit) and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental funds:

**General Fund** - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Open Space Land Preservation Fund** - The Open Space Land Preservation Fund accounts for monies collected to be used for permanent preservation of farmland, open space, wildlife, etc. and to provide new parks and recreational opportunities.

**Public Improvement Fund** - The Public Improvement Fund is used to account for monies collected from outside development to be used for increased public safety.

**Capital Project Fund** - The Capital Project Fund is used to account for the monies collected and expended for capital improvements.

The Township reports the following major proprietary funds:

**Water Fund** - The Water Fund accounts for the activities of the water distribution system.

**Sewer Fund** - The Sewer Fund accounts for the activities of the sewage collection system.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Additionally, the Township reports the following fund types:

**Agency Funds** - The Agency Funds account for assets held by the Township in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer functions and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected to also follow private sector standards issued after November 30, 1989 for its business-type activities.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **Property Tax Revenue**

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are due on February 14 with the final collection date of the last day of February before they are added to the county tax roll.

The Township's 2005 tax is levied and collectible on December 1, 2005 and is recognized as revenue in the year ended March 31, 2006, when the proceeds of the levy are budgeted and available for the financing of operations.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

The 2005 taxable valuation of the Township totaled \$1,262,302,663 (a portion of which is abated and a portion of which is captured by the DDA), on which taxes levied consisted of 0.9554 mills for operating purposes and 0.4960 mills for land preservation. This resulted in approximately \$1,100,000 for operating and approximately \$570,000 for open space land preservation. These amounts are recognized in the respective General Fund and Open Space Preservation Fund financial statements as tax revenue.

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund is generally allocated to each fund based on relative participation in the pool.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

**Prepaid Items** - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital Assets** - Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are recorded by the Township as appropriate, based on cost and useful life. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Utility system	50 years
Sewer meters	25 years
Buildings	20 to 50 years
Land improvements	10 to 25 years
Machinery and equipment	5 to 25 years
Vehicles	5 years
Fire vehicles	20 years

**Compensated Absences (Vacation and Sick Leave)** - It is the Township's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. No liability for these amounts is reported in governmental funds as there were no employee terminations as of year end.

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### **Note 2 - Stewardship, Compliance, and Accountability**

**Construction Code Fees** - The Township does not collect construction code fees as allowed by the State's Construction Code Act. Accordingly, no separate reporting of this activity has been reflected in the financial statements.

### **Note 3 - Deposits and Investments**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township has designated six particular banks for the deposit of its funds. The investment policy adopted by the Township board of trustees in accordance with Public Act 196 of 1943 has authorized investment in bonds and securities of the United States government and bank accounts, commercial paper, certificates of deposit, mutual funds, and repurchase agreements.

### Note 3 - Deposits and Investments (Continued)

The Township's cash and investments are subject to several types of risk, which are examined in more detail below:

#### Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. At year end, the Township had \$14,812,563 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized; the component units had \$5,679,612 that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

#### Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Township's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Commercial paper - General Electric	\$ 2,209,057	66 days
U.S. government or agency bonds	17,205,924	251 days

# Township of Scio

## Notes to Financial Statements March 31, 2006

### Note 3 - Deposits and Investments (Continued)

#### Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Township has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Pooled investment	\$ 676,906	N/R	N/A
Commercial paper - General Electric	2,209,057	AAA	S&P
U.S. government or agency bonds	17,205,924	AAA	S&P

#### Concentration of Credit Risk

The Township places no limit on the amount the Township may invest in any one issuer. More than 5 percent of the Township's investments are in General Electric Capital commercial paper; these investments are 5.4 percent of the Township's total investments.

### Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, total deferred revenue of \$360,000 represents future special assessment collections that are unavailable in the current period.



# Township of Scio

## Notes to Financial Statements March 31, 2006

### Note 5 - Capital Assets

Capital asset activity of the Township's governmental and business-type activities was as follows:

	Balance April 1, 2005	Additions	Disposals and Adjustments	Balance March 31, 2006
<b>Governmental Activities</b>				
Capital assets not being depreciated -				
Land	\$ 412,714	\$ 160,050	\$ -	\$ 572,764
Capital assets being depreciated:				
Buildings	2,443,214	-	-	2,443,214
Land improvements	154,237	-	-	154,237
Equipment	774,746	40,785	(13,426)	802,105
Fire vehicles	826,121	-	-	826,121
Subtotal	4,198,318	40,785	(13,426)	4,225,677
Accumulated depreciation:				
Buildings	205,495	50,452	-	255,947
Land improvements	24,843	12,422	-	37,265
Equipment	268,961	63,781	(12,953)	319,789
Fire vehicles	172,875	41,306	-	214,181
Subtotal	672,174	167,961	(12,953)	827,182
Net capital assets being depreciated	3,526,144	(127,176)	(473)	3,398,495
Net capital assets	<u>\$ 3,938,858</u>	<u>\$ 32,874</u>	<u>\$ (473)</u>	<u>\$ 3,971,259</u>

# Township of Scio

## Notes to Financial Statements March 31, 2006

### Note 5 - Capital Assets (Continued)

<b>Business-type Activities</b>	Balance April 1, 2005	Additions	Disposals and Adjustments	Balance March 31, 2006
Capital assets not being depreciated:				
Land	\$ 17,579	\$ -	\$ -	\$ 17,579
Construction in progress	-	985,302	-	985,302
Subtotal	17,579	985,302	-	1,002,881
Capital assets being depreciated:				
Buildings	761,586	-	-	761,586
Utility system	22,818,794	486,151	-	23,304,945
Sewer meters	7,118	-	-	7,118
Machinery and equipment	416,058	1,651	(1,925)	415,784
Vehicles	56,649	-	-	56,649
Subtotal	24,060,205	487,802	(1,925)	24,546,082
Accumulated depreciation:				
Buildings	328,203	19,278	-	347,481
Utility system	5,962,733	469,481	-	6,432,214
Sewer meters	5,338	285	-	5,623
Machinery and equipment	242,969	19,823	(1,925)	260,867
Vehicles	44,050	8,890	-	52,940
Subtotal	6,583,293	517,757	(1,925)	7,099,125
Net capital assets being depreciated	17,476,912	(29,955)	-	17,446,957
Net capital assets	<u>\$ 17,494,491</u>	<u>\$ 955,347</u>	<u>\$ -</u>	<u>\$ 18,449,838</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 76,437
Public safety	90,788
Public works	<u>736</u>
Total governmental activities	<u>\$ 167,961</u>
Business-type activities:	
Water	\$ 221,290
Sewer	<u>296,467</u>
Total business-type activities	<u>\$ 517,757</u>

# Township of Scio

## Notes to Financial Statements March 31, 2006

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
<b>Due to/from Other Funds</b>		
General Fund	Other governmental funds	<u>\$ 360</u>
Receivable Fund	Payable Fund	Amount

#### Due to/from Primary Government and Component Units

Primary government -	Component unit - Downtown	
General Fund	Development Authority	<u>\$ 1,618</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Other governmental funds	<u>\$ 90,813</u> (1)

(1) Transfer for debt service

# Township of Scio

## Notes to Financial Statements March 31, 2006

### Note 7 - Long-term Debt

The Township issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Township. Installment purchase agreements are also general obligations of the government. Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
<b>Governmental Activities</b>						
General obligation bonds:						
1999 General Obligation Limited Tax Bonds:	4.90% -	\$50,000 -	\$ 775,000	\$ (50,000)	\$ 725,000	\$ 50,000
Amount of issue: \$900,000	5.65%	\$75,000				
Maturing through May 2017						
Installment purchase agreements:	5.50%	\$77,740	151,785	(74,045)	77,740	77,740
Amount of issue: \$643,295						
Maturing through November 2006						
Compensated absences			89,325	(4,150)	85,175	59,893
Total governmental activities			<u>\$ 1,016,110</u>	<u>\$ (128,195)</u>	<u>\$ 887,915</u>	<u>\$ 187,633</u>
<b>Component Unit</b>						
General obligation bonds:						
1988 General Obligation Limited Tax Bonds:						
Amount of issue: \$1,500,000		\$100,000 -				
Maturing through November 2008		\$125,000	\$ 450,000	\$ (100,000)	\$ 350,000	\$ 100,000
1990 General Obligation Limited Tax Bonds:						
Amount of issue: \$2,775,000						
Maturing through November 2010		\$175,000	1,050,000	(175,000)	875,000	175,000
1994 General Obligation Limited Tax Bonds:						
Amount of issue: \$8,000,000	5.00% -	\$500,000 -				
Maturing through May 2014	8.00%	\$700,000	5,800,000	(400,000)	5,400,000	500,000
2002 General Obligation Limited Tax Bonds:						
Amount of issue: \$7,000,000	4.25% -	\$300,000 -				
Maturing through April 2018	6.25%	\$700,000	6,450,000	(300,000)	6,150,000	300,000
Total component unit			<u>\$ 13,750,000</u>	<u>\$ (975,000)</u>	<u>\$ 12,775,000</u>	<u>\$ 1,075,000</u>

# Township of Scio

## Notes to Financial Statements March 31, 2006

### Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Component Unit		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 127,740	\$ 41,930	\$ 169,670	\$ 1,075,000	\$ 648,636	\$ 1,723,636
2008	50,000	35,576	85,576	1,100,000	581,487	1,681,487
2009	50,000	33,051	83,051	1,150,000	513,706	1,663,706
2010	50,000	30,476	80,476	1,175,000	442,950	1,617,950
2011	50,000	27,851	77,851	1,175,000	376,700	1,551,700
2012-2016	325,000	92,027	417,027	5,150,000	987,638	6,137,638
2017-2019	150,000	8,476	158,476	1,950,000	132,939	2,082,939
Total	\$ 802,740	\$ 269,387	\$ 1,072,127	\$ 12,775,000	\$ 3,684,056	\$ 16,459,056

### Note 8 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for property loss, torts, errors and omissions, and medical benefit claims and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

### Note 9 - Defined Benefit Pension Plan

**Plan Description** - The Township participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers all full- and part-time firefighters of the Township, except the fire chief. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, Michigan 48917.

### **Note 9 - Defined Benefit Pension Plan (Continued)**

**Funding Policy** - The obligation to contribute to and maintain the MERS for these employees was established by negotiations with the Township's collective bargaining units and arbitration rulings under Michigan Public Act 312 of 1969. Under the bargaining agreement, the Township is required to contribute a fixed 8 percent of gross wages through April 30, 2012, after which the percent contribution may change. The balance of funding required beyond the Township's 8 percent will be contributed by the full- and part-time firefighters of the Township.

**Annual Pension Costs** - For the years ended March 31, 2006 and 2005, the Township's annual pension cost was approximately \$23,400 and \$11,400, respectively. The Township's participation in the plan commenced during the 2005 fiscal year. A current valuation, including the negotiated required Township contribution of 8 percent, is not yet available; therefore, no information has been included regarding the funding status of the plan.

### **Note 10 - Defined Contribution Retirement Plan**

The Township offers pension benefits to all of its full-time employees through a defined contribution plan. Effective January 1, 2005, the Township firefighters were transferred to the Municipal Employees' Retirement System of Michigan (MERS) plan referred to in Note 9. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate 90 days from the date of employment. As established by the board of trustees, the Township contributes 8 percent of an employee's approved pension earnings. Employee contributions are not required. In accordance with these requirements, the Township contributed approximately \$61,000 during the current year. The Township's contributions for each employee are fully vested upon entering service.

### **Note 11 - Other Postemployment Benefits**

The Township has elected to provide postemployment health benefits to certain retirees and their beneficiaries. The Township pays a portion of the cost of coverage for these benefits. The retirees pay the difference between the Township's portion and the actual cost. Also, retirees can purchase coverage for their dependents at the Township's group rates. Currently, four retirees are eligible for postemployment health benefits. For the fiscal year ended March 31, 2006, the Township made payments for postemployment health benefit premiums of approximately \$29,600, of which \$14,000 was reimbursed to the Township by retirees. Expenditures for postemployment health care benefits will be recognized as the insurance premiums become due.

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending March 31, 2009.

## **Required Supplemental Information**

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# Township of Scio

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## **Required Supplemental Information Note to Budgetary Comparison Schedule - General Fund Year Ended March 31, 2006**

**Budgetary Information** - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General and all Special Revenue Funds except that operating transfers and the proceeds of long-term financing have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)."

The annual budget is prepared by the Township's department heads and finance department. It is approved by the Township budget committee and adopted by the Township board; subsequent amendments are approved by the Township board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at March 31, 2006 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of the actual results of operations to the budgeted amounts (at the level of control adopted by the Township board) for the General Fund, Open Space Land Preservation Fund, and the Public Improvement Fund is presented as required supplemental information. Information comparing other Special Revenue Fund activity to the respective budgets can be obtained at the Township hall.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the Township of Scio incurred expenditures that were in excess of the amounts budgeted in the Public Improvement Fund of approximately \$88,000.

# Township of Scio

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended March 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenues</b>	\$ 2,835,001	\$ 3,204,190	\$ 3,313,743	\$ 109,553
<b>Expenditures</b>				
General government	704,900	717,000	634,811	82,189
Elections	61,000	19,316	17,148	2,168
Assessor	373,160	378,550	354,548	24,002
Buildings and grounds	42,825	54,125	44,022	10,103
Health and safety	691,501	728,225	680,112	48,113
Fire	962,120	712,325	702,728	9,597
Boards and commissions	257,620	598,550	514,263	84,287
Contingency	90,813	90,813	90,813	-
Capital outlay	50,000	70,000	50,665	19,335
Total expenditures	3,233,939	3,368,904	3,089,110	279,794
<b>Net Change in Fund Balance</b>	(398,938)	(164,714)	224,633	389,347
<b>Fund Balance - Beginning of year</b>	3,838,709	3,838,709	3,838,709	-
<b>Fund Balance - End of year</b>	<u>\$ 3,439,771</u>	<u>\$ 3,673,995</u>	<u>\$ 4,063,342</u>	<u>\$ 389,347</u>

# Township of Scio

## Required Supplemental Information Budgetary Comparison Schedule Open Space Land Preservation Fund Year Ended March 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenues</b>	\$ 519,000	\$ 565,000	\$ 585,923	\$ 20,923
<b>Expenditures</b>	<u>10,000</u>	<u>37,700</u>	<u>37,035</u>	<u>665</u>
<b>Net Revenue</b>	509,000	527,300	548,888	21,588
<b>Fund Balance - Beginning of year</b>	<u>530,928</u>	<u>530,928</u>	<u>530,928</u>	<u>-</u>
<b>Fund Balance - End of year</b>	<u><u>\$ 1,039,928</u></u>	<u><u>\$ 1,058,228</u></u>	<u><u>\$ 1,079,816</u></u>	<u><u>\$ 21,588</u></u>

# Township of Scio

## Required Supplemental Information Budgetary Comparison Schedule Public Improvement Fund Year Ended March 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenues</b>	\$ 19,000	\$ 31,000	\$ 38,342	\$ 7,342
<b>Expenditures</b>	52,235	57,220	144,999	(87,779)
<b>Net Expenditures</b>	(33,235)	(26,220)	(106,657)	(80,437)
<b>Fund Balance - Beginning of year</b>	774,157	774,157	774,157	-
<b>Fund Balance - End of year</b>	<u><u>\$ 740,922</u></u>	<u><u>\$ 747,937</u></u>	<u><u>\$ 667,500</u></u>	<u><u>\$ (80,437)</u></u>

## **Other Supplemental Information**

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# Township of Scio

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds March 31, 2006

	Special Revenue Funds		Debt Service Funds	Total Nonmajor Governmental Funds
	Budget Stabilization	Public Safety and Improvement	Building Authority	
<b>Assets</b>				
Cash and investments	<u>\$ 82,744</u>	<u>\$ 1,210,463</u>	<u>\$ -</u>	<u>\$ 1,293,207</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b> - Due to other funds	\$ 150	\$ 210	\$ -	\$ 360
<b>Fund Balances</b> - Unreserved	<u>82,594</u>	<u>1,210,253</u>	<u>-</u>	<u>1,292,847</u>
Total liabilities and fund balances	<u>\$ 82,744</u>	<u>\$ 1,210,463</u>	<u>\$ -</u>	<u>\$ 1,293,207</u>

# Township of Scio

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended March 31, 2006

	Special Revenue Funds		Debt Service Funds	Total Nonmajor Governmental Funds
	Budget Stabilization	Public Safety and Improvement	Building Authority	
<b>Revenue</b> - Interest, rentals, and other	\$ 2,890	\$ 47,250	\$ -	\$ 50,140
<b>Expenditures</b>				
General government	150	210	-	360
Debt service	-	-	90,813	90,813
Total expenditures	150	210	90,813	91,173
<b>Excess of Revenue Over (Under) Expenditures</b>	2,740	47,040	(90,813)	(41,033)
<b>Other Financing Sources</b> - Transfers in	-	-	90,813	90,813
<b>Net Change in Fund Balances</b>	2,740	47,040	-	49,780
<b>Fund Balances</b> - Beginning of year	79,854	1,163,213	-	1,243,067
<b>Fund Balances</b> - End of year	<u>\$ 82,594</u>	<u>\$ 1,210,253</u>	<u>\$ -</u>	<u>\$ 1,292,847</u>

June 14, 2006

To the Members of the  
Township Board of Trustees  
Scio Township  
827 North Zeeb Road  
Ann Arbor, MI 48103

Dear Trustees:

We have recently completed our audit of the financial statements of Scio Township (the "Township") for the year ended March 31, 2006. As part of our audit, and in addition to the financial report, we offer the following comments and recommendations for your consideration. Before we discuss our specific comments and recommendations, we would like to compliment the Township's staff, in particularly Mrs. Sandy Egeler, for the overall positive condition of the financial records and related documentation for the fiscal year ended March 31, 2006 and the assistance provided to us during the audit.

### **Internal Control and Accounting Considerations**

During the audit, we noted the following regarding the internal control structure:

- During our review of the payroll system, we noted that there is only online documentation relating to the department cost allocation for individuals. As the allocations change from time to time, an audit trail to verify appropriate allocation of costs is difficult. Although we were able to retrieve the necessary information and appropriately perform our walkthrough of the system, we would suggest the information be formally documented during the budget process and again when any allocations are revised.
- During our audit, it was noted that the Township treasurer has not presented an investment report to the board of trustees as required by the Township's investment policy. We recommend the treasurer provide this report within 120 days of the Township's fiscal year end.

### **State-shared Revenue**

The State's fiscal year 2005/2006 provides for both constitutional and statutory revenue sharing at approximately \$1.1 billion, which is basically the fiscal year 2004/2005 funding level. As with the past several years, revenue-sharing payments on an individual community-by-community basis for fiscal year 2005/2006 are being funded at approximately fiscal year 2004/2005 levels.

The governor's proposed 2006/2007 budget did not include any additional funding for local governments. As a result, it is expected that overall revenue-sharing payments to communities for fiscal year 2006/2007 will remain stagnant at the 2004/2005 level.



Even though there is the expectation that revenue sharing will hold constant at prior year funding levels, continued caution should be exercised when budgeting this line item. While it is good news that revenue sharing may be maintained at current levels, sales tax revenue would support an increase to total state-shared revenue payments. However, for fiscal years 2004/2005, 2005/2006, and 2006/2007, the appropriation in the State's budget for revenue-sharing payments is over \$500 million less annually than amounts provided for in law and based on actual sales tax collections. For those three years, revenue-sharing distributions are planned to be approximately \$1.6 billion less than amounts provided by statutory formulas. There appears to be no long-term solution to the State's structural deficit in its General Fund, and as long as this condition exists, revenue sharing remains at risk and a return to past funding levels is not likely in the foreseeable future.

State-shared revenue accounts for approximately 28 percent of the Township's total General Fund revenue. The table below details state-shared revenue for the Township over the past five years broken out by statutory and constitutional portions. In addition, it details the total decrease in state-shared revenue experienced by the Township compared to the State's fiscal year 2001.

<u>State Fiscal Year</u>	<u>Statutory</u>	<u>Constitutional</u>	<u>Total</u>	<u>Decrease from 2001</u>
2001	\$ 144,771	\$ 870,917	\$ 1,015,688	\$ -
2002	133,221	879,581	1,012,802	2,886
2003	140,454	893,351	1,033,805	18,117
2004	45,510	883,625	929,135	86,553
2005	14,504	904,503	919,007	96,681
2006	- *	919,007	919,007	96,681

\* The Michigan Department of Treasury website shows the Township receiving \$0 for the statutory portion of revenue sharing in 2006.

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the Township has approximately \$14,504 at risk in its General Fund budget based on 2005 funding levels. We will continue to update the Township as developments occur. The statutory formula expires in 2007 and requires action by the legislature.

The revenue-sharing act does provide that a city, village, or township with a minimum 10 percent population growth confirmed by a special census, and levying at least one mill, is eligible for an annual payment for a portion or all of the growth population. Even if the Township meets these criteria, funds for the special census payment must be appropriated by the legislature.

We will continue to update the Township as developments occur.

## **Property Taxes**

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is shown as follows:

<u>Year</u>	<u>Percentage</u>
2006	3.3
2005	2.3
2004	2.3
2003	1.5
2002	3.2
2001	3.2
2000	1.9
1999	1.6
1998	2.7
1997	2.8
1996	2.8

Property taxes are the Township's largest source of General Fund revenue. However, as indicated above, growth in existing property taxes can be significantly limited due to Proposal A. This factor should be considered when the Township is involved in long-term financial planning.

## **Tax Matters**

The governor and the Legislature spent considerable time in 2005 on business tax reform, with specific focus on the Michigan Single Business Tax. The final approved business tax reform plan appeared to spare local governments from any negative impact of the changes. A key component to this plan is a significant credit on personal property taxes paid by certain businesses. Many questions have arisen from these proposals, such as who determines the property that qualifies for credit, how will local governments be reimbursed by the State for the lost tax revenue as is the stated intention, etc. Currently, the plan as passed provides for a personal property tax credit for certain businesses on their Michigan single business tax return. After the approval of these changes, new discussion and debate are ongoing regarding the complete repeal of the Michigan single business tax. While single business tax is not the source of revenue-sharing payments to local governments, the repeal of the Single Business Tax without replacement revenue or a corresponding reduction in State spending may impact the State's ability to fund statutory revenue sharing.

To the Members of the  
Township Board of Trustees  
Scio Township

4

June 14, 2006

### **Funding of Postemployment Benefit Obligations**

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care benefits. The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government-wide financial statements, rather than the individual fund level. As a result, the Township will need to continue to budget for contributions to a pre-funding plan. For many communities, the funding of post-employment benefits is the most significant financial challenge they will face in coming years. Although the statement will not be effective until the Township's 2008 calendar year, the Township should consider performing an actuarial valuation in the near future to provide an estimate as to what these annual costs may amount to. The cost of health care currently paid each year as premiums become due has been increasing and the trend is expected to continue.

Again, we would like to thank the Township board and all Township personnel for the courtesy and assistance extended to us during the audit. We would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments and recommendations at your convenience.

Very truly yours,

**Plante & Moran, PLLC**



Michael J. Swartz



Brian J. Camiller